HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Québec CMA

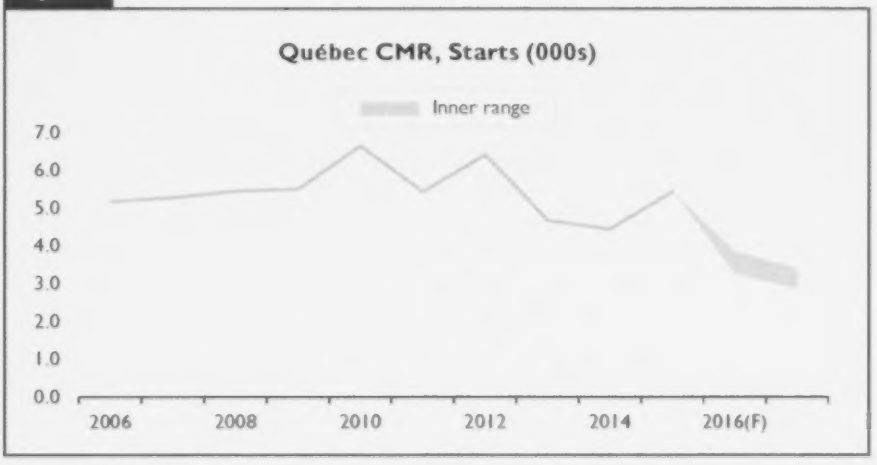
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2016

Highlights

- In 2016 and 2017, the economic and demographic environment will be relatively stable in the Québec census metropolitan area (CMA), such that housing demand will remain comparable to the level observed in 2015.
- After a very strong year in 2015, housing starts will fall rather significantly, reaching between 3,250 and 3,850 units in 2016 and between 2,850 and 3,400 in 2017.
- The resale market will post small gains over the next two years, as Centris® sales will range between 6,600 and 7,000 units this year and then between 6,800 and 7,200 next year.
- The rental market, for its part, will see the vacancy rate increase, rising from 4.0 per cent in 2015 to 5.0 per cent in 2016 and then to 5.5 per cent in 2017.

Figure 1



Source: CMHC (F): Forecast

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The forecasts and historical data included in this document reflect information available as of April 29, 20016.

New home market: fewer starts

After a particularly strong year in 2015, housing starts will fall this year and likely also next year. Inventories of completed and unabsorbed units will limit activity. As well, the widest choice of existing properties for sale will slow demand for new dwellings.

Overall, housing starts will range between 3,250 and 3,850 units in 2016 and between 2,850 and 3,400 in 2017. These levels of activity will follow a rather busy year in 2015, when construction got under way on 5,442 dwellings.

Single-detached homes: downward trend to continue

Since 2005, fewer and fewer single-detached houses have been built in the Québec CMA. This downward trend, attributable to several factors (high land prices, intensification, and wider choice of existing properties for the past few years), will continue over the next two years.

From 826 units in 2015, single-detached home starts will reach between 675 and 825 in 2016. Next year, between 650 and 800 such units will be started.

It should also be noted that the proportion of single-detached home starts recorded in the Québec Agglomeration, compared to the overall CMA, has been on the decline for the past several years: from 37.5 per cent in 2010, this share dropped to 26.0 per cent in 2015. The Northern Suburbs benefited from this geographic shift, as the share of that sector rose from 30.1 per cent in 2010 to 44.4 per cent in 2015. As for Québec's South Shore, this sector has maintained similar shares since 2010. These trends should continue over the next two years.

Multi-unit housing: inventories of completed and unabsorbed units to limit activity

Muti-unit housing starts will fall from now until 2017, following the strong activity registered in 2015 (4,616 units). In all, such starts will range between 2,575 and 3,025 units this year and between 2,200 and 2,600 next year.

The decreases will be felt mainly in the conventional rental housing segment. In fact, the high level of construction observed in 2015 should give way to some adjustments this year and next. Starts of this type more than doubled in 2015 over 2014 and hit an all-time high in a context where rental housing demand should grow less significantly than in recent years[1]. In fact, the vacancy rate reached 4.0 per cent in 2014 and, should the pace of construction hold up, the risks of overbuilding—already present—could materialize, which would push up the vacancy rate above 6 per cent by 2017[2].

Inventories of completed and unabsorbed conventional housing units are therefore expected to rise, which should prompt builders to slow down the pace, in order to promote the absorption of recently completed units.

In the condominium segment, current conditions are clearly still favouring buyers, as inventories of new and existing units remain at historically high levels[3]. Furthermore, the level of activity anticipated on the resale market will not be sufficient to expect that market conditions will become balanced again in this segment. There is consequently a market risk for new projects. In this context, housing starts should decrease in both 2016 and 2017.

It will be a different story for seniors' rental housing. In fact, the growth in the population aged 75 or older

Note to readers

In an effort to align itself with the various needs of those seeking information about the housing market, CMHC's Market Analysis Centre has undertaken a complete review of its products and services. As a part of this review, the CMHC's *Housing Market Outlook* publication will be undergoing a series of modifications. The general objective is to provide a range of possible outcomes that, in a context of economic and financial uncertainty, will better help users in their decision-making process.

As a first step in this ongoing process, the present edition incorporates forecast ranges for housing variables as well as an expanded discussion on the risks to the forecast. A more detailed description of the forecast range methodology is provided at the end of the publication.

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[1] See also "Traditional rental market: the growth in supply accelerated in 2015, but what about future demand?" in the first quarter 2016 issue of Housing Market Insight – Québec CMA.

[2] Ibid.

[3] In March 2016, in the condominium segment, there were 444 new completed and unabsorbed units and 2,648 active Centris® listings.

will pick up the pace and stimulate demand in that market. Construction should therefore get under way on several seniors' residences from now until the end of 2017[4].

Lastly, there should be fewer semi-detached and row housing starts over the next two years, given the larger supply on the existing home market.

Activity will therefore slow down in both the single-detached home and multi-unit housing segments.

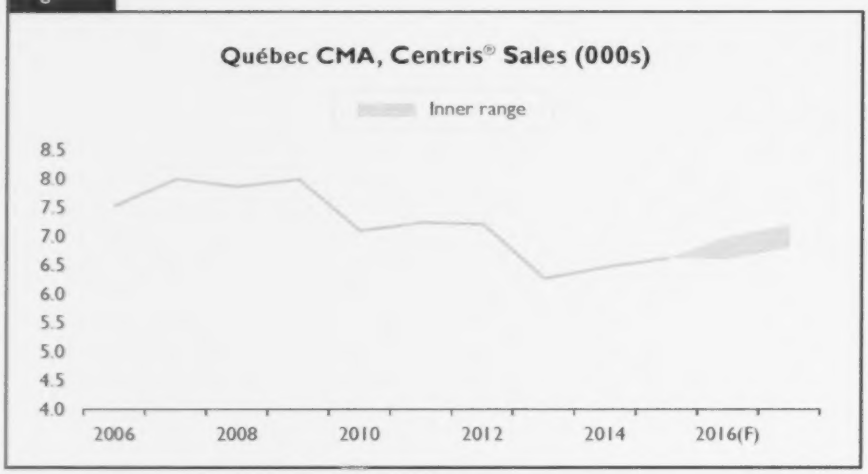
Existing home market: small gains in Centris® sales on the horizon

The employment growth recorded in 2015 and the job market strength[5] anticipated over the next two years, combined with the low mortgage rates, will support demand on the existing home market. Despite these concurrent factors, only small gains in sales are expected this year and next, given the anticipated stable environment. In 2016, Centris® transactions will range between 6,600 and 7,000 units, while in 2017, they will reach between 6,800 and 7,200 units.

Since demand and new listings will rise only slightly, the supply of properties for sale will increase. Market conditions—already favourable to buyers—will ease a little more.

It should be noted however that, while market conditions will give just a slight edge to buyers for single-family houses and plexes, they will remain clearly favourable to buyers in the case of condominiums.

Figure 2



Sources: QFREB by the Centris® system (F): Forecast

Figure 3

Sources: CMHC (F): CMHC forecast

The average Centris® price of residential properties, which was $265,569 in 2015, will hover between $256,000 and $270,000 in 2016. Also, it would not be surprising to see a drop in prices for condominiums, given the market conditions that continue to favour buyers in that segment, which will put downward pressure on the average price of residential properties. Next year, the average Centris® price of homes will remain in the same forecast range as in 2016.

[4] There were 659 seniors' housing starts in 2015.

[5] While no significant changes in employment are expected, a larger share of full time jobs could be observed from now until 2017.

Rental market: vacancy rateto rise

Over the coming years, several factors will put upward pressure on the vacancy rate. First of all, in 2016, many new rental housing units will be completed[6] and start being absorbed.

In addition, there is every indication that, from now until 2017, demand for rental housing will rise less rapidly, which will also put upward pressure on the vacancy rate.

In fact, net migration in the area will remain below the levels recorded between 2007 and 2014. As well, the medium- and long-term population projections indicate that a slowdown will occur, which will impact demand for housing—including rental housing—over the coming years.

Overall, it is estimated that, within two years, supply will exceed demand, which will push up the vacancy rate from 4.0 per cent in 2015 to 5.0 per cent in 2016 and then to 5.5 per cent in 2017.

Furthermore, it is important to mention that these forecasts reflect the fact that builders and developers will be going through an adjustment period, given the significant number of rental units that will be completed and unabsorbed. Should the pace of supply hold up, the vacancy rate would rise further.

In this context, there will be more choice for tenants, which will be reflected in the rents, such that the average rent should remain relatively stable. The average rent for two-bedroom apartments will rise from $788 in 2015 to $790 in 2016 and stay at that level in 2017.

Economy and demographics: environment will keep things relatively unchanged

Following a few years of stability, employment grew by 2 per cent between 2014 and 2015 in the Québec metropolitan area. These results do conceal a few nuances that are important to point out.

It would first appear that employment growth was concentrated in the part-time sector, while full-time jobs remained at the same level[7].

This result certainly reflects, for one thing, the reluctance of the private sector to speed up hiring, given the gradual recovery in the U.S., and, for another, the fiscal restraint in the public sector.

By sector, however, employment is tending to pick up in the manufacturing industry, which bodes well for the job market, even though this sector accounts for only a limited share of the regional economy. The tourism sector should also benefit from a more favourable environment over the next two years, with the strengthening U.S. economy and the relatively weak Canadian dollar against the U.S. dollar.

From now until 2017, the total number of jobs is not expected to change much, given the anticipated lower investments in major infrastructure projects[8] and in the residential sector. The job market could still experience a period of consolidation[9], as the U.S. economic recovery gains traction and the fiscal restraint period gives way to moderate growth in program and infrastructure spending.

Despite the expected stability, employment will remain at historically high levels. In addition, the labour force is expected to remain relatively stable, which will keep the unemployment rate at 5.0 per cent, both in 2016 and 2017. The Québec area will therefore have one of the lowest unemployment rates among Canada's major urban centres.

Over the next two years, the strong job market will support housing demand in the area.

As for migration, the next two years will see levels remain stable and below the average of the last 10 years[10], since, even though the job market will stay strong, no job creation is anticipated. Net migration (in-migrants less out-migrants) will reach 4,100 people, in both 2016 and 2017.

It should be noted that the area has been attracting more and more newcomers[11], which has helped it maintain relatively high net migration levels in recent years. From now until 2017, the area will retain its appeal, thanks to its low unemployment rate and strong job market, but with no growth in sight, net migration will be lower.

Migration is a major contributor to the area's population growth. The total population of the Québec metropolitan area will therefore grow less significantly than in recent years. It is estimated that, after having surpassed 800,000 people in 2014, the population will reach nearly 817,000 in 2017.

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[6] See the section on the new home market.

[7] Statistics Canada, Labour Force Survey.

[8] Institut de la statistique du Québec, Capital and repair expenditures, census metropolitan areas (CMAs) and all of Québec, 2013-2015.

[9] While no significant changes in employment are expected, a larger share of full-time jobs could be observed from now until 2017.

[10] Annual net migration in the Québec CMA averaged at 4,750 people between 2006 and 2015.

[11] International migration.

These demographic trends will have impacts on housing demand in the short term. For example, migration is known to have a relatively direct effect on rental housing demand, with newcomers to a given area rather tending to seek a fast and flexible way to access housing. It can therefore be concluded that the growth in rental housing demand, linked to the impact of the new residents in the area, will be less significant than in recent years.

Mortgage rates are expected to rise moderately from current levels in 2017

Mortgage rates are expected to stay near current levels until the end of 2016, supporting housing demand. Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to gradually start rising from current levels in the first half of 2017. This expected profile for mortgage rates is in line with the Bank of Canada's view of the economy returning to its full capacity by the end of 2017, according to its April 2016 Monetary Policy Report.

According to CMHC's base case scenario, the five-year mortgage rate is expected to be within the 4.4 to 5.0 per cent range in 2016 and within the 4.7 to 5.3 per cent range in 2017.

Methodology for forecast ranges

The present edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. Despite this change, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available. Two sets of ranges are presented in the publication:

- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation* of historical data and on past forecast accuracy. This range provides precision and direction for forecasts of housing variables, given a specific set of assumptions for the market conditions and underlying economic fundamentals.
- An outer range, which reflects potential risks to the forecast due to, for example, the impact of economic shocks. The outer range is based on a broader coefficient of variation of historical data and on past forecast accuracy. This range includes some low-probability events that could have a significant impact on the forecast.

Downward (or upward) adjustments to the ranges may be applied based on local market intelligence if there are more sources of risks (upside or downside) for that specific market.

* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

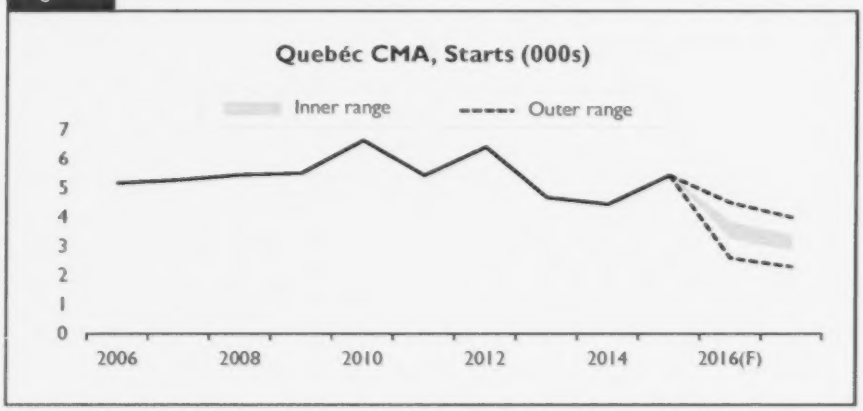
Trends at a glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates will begin to rise gradually late in 2017, contributing to moderation in housing demand.
Employment	The strong job market will support housing demand.
Income	Household income should keep rising over the next two years, which will support demand on the new home market.
Population	Population growth will be relatively weak in 2016 and 2017, tempering the demand for new homes.
Resale Market	The large supply of existing homes will limit the demand for new homes in 2016 and 2017.
New condominiums	The relatively high number of new unabsorbed condominium units will limit the need for new units on the new home market.

Forecast risks

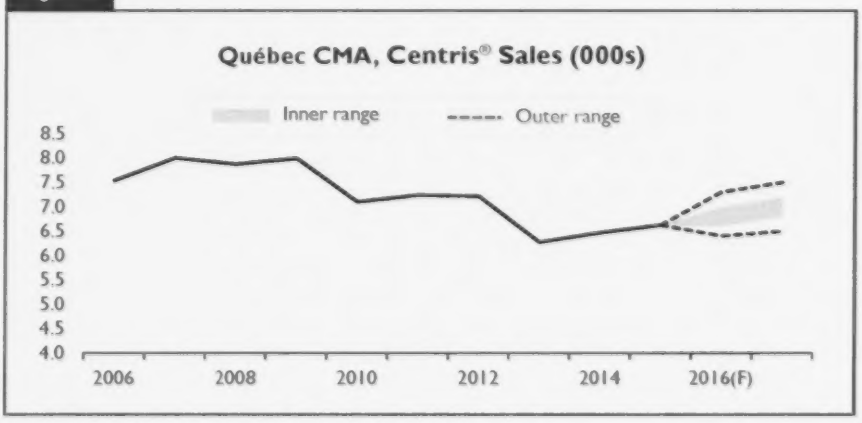
- Developers could overestimate rental housing demand in the short term and there could be more conventional rental housing starts than expected, which would push up total starts to higher-than-expected levels. Starts could then hit 4,500 units in 2016 and up to 4,000 in 2017. Conversely, the slow pace of absorption of new rental units could cause total starts to dip more significantly and reach 2,600 units in 2016 and then 2,300 in 2017.
- On the existing home market, unexpected changes in the economic or demographic environment—such as a decline in employment due to tighter public spending and unsteady U.S. economic growth or, conversely, an increase in jobs attributable to renewed hiring in the public and broader public sectors and a strengthening U.S. economy—could put upward or downward pressure on Centris® sales and the average Centris® price of residential properties. Sales could then range between 6,400 and 7,300 units in 2016 and between 6,500 and 7,500 in 2017. The average price, for its part, could be between $240,000 and $285,000, both this year and next year.

Figure 4



Source: CMHC (F): Forecast

Figure 5



Source: QFREB by the Centris® system (F): Forecast

Forecast Summary Québec CMA Spring 2016							
	2013	2014	2015	2016(F)		2017(F)	
				(L)	(H)	(L)	(H)
New Home Market							
Starts:							
Single-Detached	961	887	826	675	825	650	800
Multiples	3,719	3,562	4,616	2,575	3,025	2,200	2,600
Starts - Total	4,680	4,449	5,442	3,250	3,850	2,850	3,400
Resale Market							
Centris® Sales	6,273	6,468	6,622	6,600	7,000	6,800	7,200
Centris® Average Price($)	267,203	264,366	265,198	256,000	270,000	256,000	270,000
Economic Overview							
Mortgage Rate(5 year)(%)	5.24	4.88	4.67	4.40	5.00	4.70	5.30

	2013	2014	2015	2016(F)	2017(F)
Rental Market					
October Vacancy Rate (%)	2.3	3.1	4.0	5.0	5.5
Two-bedroom Average Rent (October)($)	757	775	788	790	790
Economic Overview					
Population	793,570	800,879	806,359	811,600	816,900
Annual Employment Level	428,500	433,700	442,300	442,300	442,300

QFREB by Centris®. The Centris® system contains all the listings of Québec real estate board.

Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 29th April 2016. (L)=Low end of Range. (H)=High end of range.

The low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is due to rounding and volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey). Statistics Canada. Centris®. CMHC Forecast (2016-2017).

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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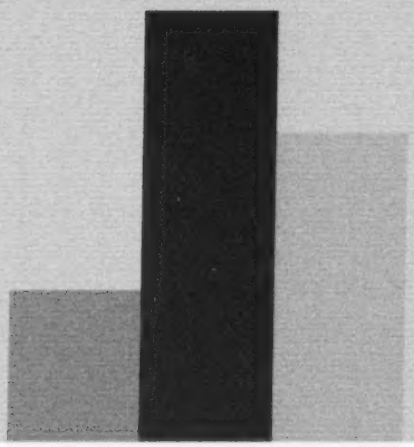

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